

Financial Openness and Capital Market Development in Sub-Saharan African Countries

Okafor, Martin Emeka; Nwakoby, Clement Ikechukwu Ndukaife;
Adigwe, Patrick Kanayo; Ezu, Gideon Kasie

Department of Banking and Finance, Nnamdi Azikiwe University, Awka, Nigeria

ABSTRACT

This study examined the nexus between financial openness and capital market development in Sub-Saharan African Countries for 30 years period ranging from 1990 - 2019. The study proxied financial openness with capital account balance ratio, private capital inflow ratio, number of listed companies, external finance through foreign capital market and per capita income ratio while capital market development was measured with market capitalization ratio. The study employed secondary data collected from World Development Indicators, Securities and Exchange Commission statistical bulletin, and Stock Exchange fact books of the respective countries. The study adopted ex-post facto research design while the time series data were analyzed using descriptive statistics, correlation, unit root test, granger causality test, Johansen co-integration and error correction model via E-Views 10. The result revealed that there is a significant positive relationship between capital account balance ratio and market capitalization ratio in South Africa; no significant relationship between capital account balance ratio and market capitalization ratio in Nigeria; a significant negative relationship between capital account balance ratio and market capitalization ratio in Zimbabwe; a significant positive relationship between private capital inflow ratio and market capitalization ratio in South Africa; a significant positive relationship between private capital inflow ratio and market capitalization ratio in Nigeria; a significant negative relationship between capital account balance ratio and market capitalization ratio in Zimbabwe; a significant positive relationship between number of listed companies and market capitalization ratio in South Africa; a significant positive relationship between number of listed companies and market capitalization ratio in Nigeria; a significant positive relationship between number of listed companies and market capitalization ratio in Zimbabwe; a non-significant negative relationship between external finance through foreign capital market and market capitalization ratio in South Africa; a significant negative relationship between external finance through foreign capital market and market capitalization ratio in Nigeria; a significant positive relationship between external finance through foreign capital market and market capitalization ratio in Zimbabwe; a significant positive relationship between per capita income ratio and market capitalization ratio in South Africa; a significant positive relationship between per capita income ratio and market capitalization ratio in Nigeria; a significant positive relationship between per capita income ratio and market capitalization ratio in Zimbabwe at 5% level of significance respectively.

KEYWORDS: Financial inclusion; Unbanked; Market capitalization, Share Floatation

INTRODUCTION

Capital markets have been established in most Sub-Saharan African Countries to enable the governments and businesses raise relatively cheaper long-term capital for growth of business firms, economic growth and government's economic activities to spur pro-poor economic growth and alleviate poverty. Kazarwa (2015) notes that most African countries have shifted their attention to the capital markets for a number of reasons; firstly, capital markets are useful tool for privatization programs; secondly, there is a growing dissatisfaction with the bank based finance which until recently was fraught with government controls, the growing

awareness of the need for a more integrated approach to financial sector development resource mobilization and finally the promotion of investment and economic growth among other reasons. Dzikiti (2017) also notes that economies without well functioning stock markets may suffer from three types of imperfections; opportunities for risk diversification are limited for investors and entrepreneurs, firms are unable to optimally structure their financing packages; and countries without well functioning markets lack information about the prospects of firms whose shares are traded thereby restricting the promotion of

How to cite this paper: Okafor, Martin Emeka | Nwakoby, Clement Ikechukwu Ndukaife | Adigwe, Patrick Kanayo | Ezu, Gideon Kasie "Financial Openness and Capital Market Development in Sub-Saharan African Countries" Published in International Journal of Trend in Scientific Research and Development (ijtsrd), ISSN: 2456-6470, Volume-5 | Issue-2, February 2021, pp.954-961, URL: www.ijtsrd.com/papers/ijtsrd38568.pdf



IJTSRD38568

Copyright © 2021 by author (s) and International Journal of Trend in Scientific Research and Development Journal. This is an Open Access article distributed under the terms of the Creative Commons Attribution License (CC BY 4.0) (<http://creativecommons.org/licenses/by/4.0>)



investment and its efficiency. The importance of capital market lies in the financial intermediation capacity to link the deficit sector with the surplus sector of the economy. The absence of such capacity robs the economy of investment and production of goods and services for societal advancement. Funds could be idle at one end while being sought at the other end in pursuit of socio economic growth and development.

Financial openness refers to an individual country's approach to foreign investments in corporations within its jurisdiction, to the policies of each country with respect to regulating exports of specified goods and services, and to each government's policy on what is called capital flows (Sahoo & Sethi, 2020). Financial openness is referred to as the openness of the financial market of a country to other countries. It allows people to trade and carry out various financial transactions in its domestic market, which is called financial market openness and financial transaction admittance. In the same time, it allows residents and domestic institutions participate the transactions in international financial markets (Arif-Ur-Rahman & Inaba, 2020). Fasanya and Olayemi (2020) assert that that financial openness includes 7 elements: capital account openness, stock market openness, American Depository Receipt (ADR) and national fund issuance, bank reformation, privatization, capital flow and foreign direct investment (FDI).

Statement of the Problem

Despite a surge of global investor interest in the 1980s and 1990s, Africa has been bypassed by the massive international capital flowing to developing economies. Aggregate capital flows to developing countries have been rapidly exceeding official development assistance flows since 1980s. However, Africa remains the only developing region in which development assistance flows exceeds private capital flows (Jalata, 2013). This was mainly attributed to the lack or absence of a well developed financial sector (capital markets, banks, finance companies, life insurance companies, and insurance companies) and the poor economic policies and institutions in Sub-Saharan African countries. One of the major challenges facing private sector in Africa is lack of credit facilities. Investment, growth and economic welfare are also low in developing countries particularly in Africa countries (Goh, Tong & Tang, 2019). Most Sub-Saharan African countries have recently undergone extensive financial sector reforms. The reform package includes restructuring and privatization of state owned banks, the introduction of private banking systems, along with bank supervisory and regulatory schemes, the introduction of a variety of measures to promote the development of financial markets; including money and stock markets. International organizations like International Monetary Fund (IMF) and World Bank (WB) as part of an effort of financial sector openness are pressuring Sub-Saharan African countries to privatize the state owned banks and establish capital markets so as to integrate with the rest of the world (Cerdeiro & Komaromi, 2019).

Objectives of the Study

The broad objective of the study is to determine the relationship between financial openness and capital market development in selected Sub-Saharan African Countries.

The specific objectives were to:

1. Determine the relationship between capital account balance ratio and market capitalization ratio in Sub-Saharan African Countries.

2. Explore the relationship between private capital inflow ratio and market capitalization ratio in Sub-Saharan African Countries.

Research Hypotheses

In line with the objectives of this study, the following null hypotheses guided this study:

Ho₁: There is no significant relationship between capital account balance ratio and market capitalization ratio in Sub-Saharan African Countries.

Ho₂: There is no significant relationship between private capital inflow ratio and market capitalization ratio in Sub-Saharan African Countries.

Review of Related Literature

Conceptual Review

Financial Openness

Financial openness refers to the willingness of a nation to adopt liberalized policies regarding business and commerce (Petram, 2014). Financial openness refers to an individual country's approach to foreign investments in corporations within its jurisdiction, to the policies of each country with respect to regulating exports of specified goods and services, and to each government's policy on what is called capital flow (Lena, 2012). Financial openness, which can be defined as integration into international financial markets, can cause significant changes in countries' production structures and in the methods of doing business through the quantity and quality of international capital flows. (Serdaroğlu, 2015) Almost all countries maintain some level of control over the amount of wealth that can be transferred abroad (e.g. requirements that citizens declare, upon leaving their country for any period of time, whether they are transporting a certain amount of cash), types of investments, corporate mergers and acquisitions that can be carried out by foreign commercial or governmental entities (for example, regulations that require prospective foreign purchases of American businesses that involve the transfer of militarily or commercially-sensitive technologies or "know-how"), and the level of control foreign businesses or governments can exercise over a country's financial institutions, basically, the fewer such regulations or restrictions, the more "open" the country in question (William, 2011).

Controls on the movement of goods, services, and wealth are considered vital to most countries' ability to secure their economies and people from foreign threats that could develop as a result of certain types of foreign acquisitions, mergers, or investments. An example might be mandatory reviews by U.S. government agencies of proposed Chinese acquisitions of American companies that develop technologies which could be exploited for military or intelligence purposes (William, 2011). In the case of the United States, an intergovernmental organization known as the Committee on Foreign Investment in the United States (CFIUS) reviews such proposed business deals to minimize the prospects of whether foreign governments, that may not be on the best of terms with the United States, acquire American technologies which could threaten U.S. interests (Gillian, 2014). In June, 2018 the French government suggested that it would impose controls on any foreign investment in French corporate and government efforts of developing artificial intelligence technologies and at protecting the personal data of French citizens, which might otherwise be transferred to foreign governments, if

openness to foreign investments were allowed (Ledenyov & Ledenyov, 2018).

Theoretical Framework

Financial Liberalisation Theory

The concept of financial liberalisation stems back from McKinnon (1973) and Shaw (1973), who attributed economic development in developing countries to financial liberalisation. McKinnon (1973) argued that financial liberalisation is a necessary ingredient in the generation of high saving rates and investment. Shaw (1973) further argued that the subsequent real growth in the financial institutions provides domestic investors with the incentive to borrow and save, thus enabling them to accumulate more equity thereby lowering the cost of borrowing. The same view is echoed by Posner and Coleman (2009) who argued that financial liberalisation is necessary for financial markets to operate efficiently and to provide new opportunities for financing in the existing economy. Gibson and Tsakalotos (2012) defined financial liberalisation as the elimination of a series of impediments in the financial sector in order to bring it in line with that of the developed economies. There are principally three types of financial liberalisation. Firstly, this term may be used to describe domestic financial sector reforms such as privatisation and increases in credit extension to the private sector. For example, Arestis and Demetriades (2014) examined how domestic manufacturing firms in Mexico have responded to these types of reforms. Secondly, financial liberalisation may be used to refer to stock market liberalisation. In this case, stock market liberalisation occurs when a country opens up its stock markets to foreign investors, at the same time allowing domestic firms' access to international financial markets (Demirgüç-Kunt & Detragiache, 2008). Finally, financial liberalisation may refer to the liberalisation of the capital account. This is a situation where special exchange rates for capital account transactions are relaxed (Fry, 2017), where domestic firms are permitted to borrow funds from abroad (Wolfson, 2013), and where reserve requirements are lowered (Gupta & Robert, 2016). Levine and Zervos (2008) observed that restrictions on capital mobility shelter the financial institutions from foreign competition and that these capital controls "vest additional power with bureaucrats who may be even less capable than markets at delivering an efficient allocation of resources". However, Gibson and Tsakalotos (2012) do not regard all forms of government intervention as financial repression needing to be liberalised. They suggested a better understanding of how financial markets in the developing countries operate, and which aspects of the financial markets are pertinent.

Empirical Review

Tswamuno, Pardee and Wunnava (2007) conducted a study on financial liberalization and economic growth: Lessons from the South African experience (1990 -2004). Following liberalization in South Africa, uncertainty on the part of foreign investors due to lack of a credible macroeconomic framework led to increased volatility of capital flows; characterized by huge capital inflows and subsequent capital flight. Post-liberalization Foreign Portfolio Investments had no positive effect on economic growth. In addition, increased post-liberalization stock market turnover had a negative effect on economic growth. In contrast to this situation, evidence showed that foreign portfolio investment and increased turnover contributed positively to economic growth in a more controlled pre-1994 South African

economy. Using Augmented Dickey Fuller Test and Granger Causality test. The study showed that liberalization of the capital account is necessary but not sufficient for economic growth. Instead, countries need to adopt and implement credible macroeconomic policies meant to stabilize foreign capital flows in order for them to benefit fully from liberalization.

Andrianaivo and Yartey (2009) examined empirically the determinants of financial market development in Africa with an emphasis on banking systems and stock markets. Panel data techniques were used to study the main determinants of banking sector development in Africa. The estimation sample comprises 53 African countries and covered the period 1990 to 2006. The results showed that income level, creditor rights protection, financial repression, and political risk are the main determinants of banking sector development in Africa, and that stock market liquidity, domestic savings, banking sector development, and political risk are the main determinants of stock market development. The study also found that liberalizing the capital account promotes financial market development only in countries with high incomes, well-developed institutions, or both. The powerful impacts of political risk on both banking sector and stock market development suggested that resolution of political risk may be important to the development of African financial markets.

Okpara (2010) analyzed the effect of financial liberalization on selected macroeconomic variables namely, Gross Domestic Product (GDP), **foreign direct investment**, financial deepening, savings and inflation rate in Nigeria from 1989 to 2009. To carry out this analysis, the study employed three alternate methods the parametric paired sample statistic for t-test and the non parametric Wilcoxon signed rank test to determine whether significant differences exists between pre/post liberalization macroeconomic variables. The third method, the discriminant analysis was meant to determine the direction as well as the magnitude of the discriminant variables. The result showed that while real GDP recorded (highest) positive and significant contribution, national savings and **foreign direct investment** made negative and significant contribution. Financial deepening and inflation rate did not discriminate significantly between non financial and financial liberalization. In the light of this, coupled with the theoretical evidence of bank crisis emanating from financial liberalization, the recommendation that government embarking on financial liberalization should set up an agency that will follow up action, was made.

Oyovwi and Eshenake (2013) tested the effect of financial openness on economic growth in Nigeria. Theoretically and empirically, the results are mixed. The study used vector error correction modelling and to capture impact of financial openness, financial depth measured as ratio of broad money supply to gross domestic product was used as proxy for financial openness, with government policy and ratio of trade openness as other explanatory variables. The data set that were annual in nature covering the period 1970–2010 were subjected to unit root and co-integration tests. Empirical results showed that all variables are I(1) and are significant at 1, 5, and 10 percent. Co-integration results revealed that a stable long run equilibrium relationship exists between the variables. The estimated result revealed that the null hypothesis is rejected for all explanatory variables even though only financial openness satisfied a priori expectation. The study recommended legal and

accounting reforms required to strengthen operations in the financial sector, in addition to more efficient supervision from the apex bank. This can boost financial development and accelerate economic growth. To achieve this, government policies should be consistent.

METHODOLOGY

Research Design

Ex-post facto research design was employed in this study to explore the relationship between financial openness and capital market development with focus on six (6) Sub-Sahara African countries. *Ex-post facto* or after the fact design attempts to identify a natural impetus for specific outcomes without actually manipulating the independent variable (Onwnmere, 2009). With *ex-post facto*, attempts were made to explain a consequence based on antecedent conditions, determine the effect of a variable on another variable and test a claim using statistical hypothesis testing technique.

Population of the Study

The population of this study consists of the capital markets of the cross section of the three (3) Sub-Saharan African regions. The countries for each region would include Kenya (for Eastern Africa); Zimbabwe (for Eastern Africa); Botswana (for Southern Africa); South Africa (for Southern Africa); Nigeria (for Western Africa); Ghana (for Western Africa). This study would cover 30 years time series data period of 1990 – 2019 for the cross section of 6 Sub-Saharan African Countries. 1990 is chosen as the base year based on the fact that countries in Sub-Saharan Africa under study established their capital markets on or before 1990 and the implementation of financial liberalization and other economic reforms became effective in 1990.

Sample Size and Sampling Method

Three (3) Sub-Saharan African countries were purposively selected with the adoption of purposive sampling method, based on a country's stock exchange that was established on or before 1990 and whose data set would be complete and available for the study period (1990-2019). However, three (3) countries which include South Africa, Nigeria and Zimbabwe were sampled for this study.

Sources of Data

This study made use of secondary data precisely. The data for capital account balance ratio, private capital inflow ratio, number of listed companies, external finance through foreign capital market and per capita income ratio were obtained from World Development Indicators and the respective countries' stock exchange fact books. While the data for market capitalization ratios were sourced from the respective countries' stock exchange fact books and central bank statistical bulletin.

Model Specification

This study adapted a model used by Hsiao (2009).

$$SD = \alpha + \alpha_1 GDPPC + \alpha_2 INF + \alpha_3 ER + \alpha_4 BANK + \mu$$

α = coefficients to be estimated

SD = stock development

GDPPC = GDP per Capita

INF = inflation

ER = exchange rate

EXRES = external resources.

In order to ascertain the relationship between financial openness and capital market development, a linear regression model was formulated in line with the research hypotheses:

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \mu_{it} \quad \text{equ 1}$$

Where:

Y = capital market development (dependent variable)

X = financial openness (independent variable)

β_0 = Constant term (Intercept)

β_1 = Coefficient of independent variable

μ = Error term

Specifically, the above equation would be re-constructed as:

$$MCR_{it} = \beta_0 + \beta_1 CABR_{it} + \mu_{it} \quad \text{Ho}_1$$

$$MCR_{it} = \beta_0 + \beta_1 PCAPIR_{it} + \mu_{it} \quad \text{Ho}_2$$

Where:

MCR_{it} = Market Capitalization Ratio of country i in period t (dependent variable)

$CABR_{it}$ = Capital Account Balance Ratio of country i in period t (explanatory variable)

$PCAPIR_{it}$ = Private Capital Inflow Ratio of country i in period t (explanatory variable)

μ_{it} = error term that are not captured in the model of country i in period t

β_0 = constant term (Intercept)

β_1 = coefficients to be estimated

i = individual countries

t = time periods

Decision Rule

Accept the alternative hypothesis, if the P-value of the test is less than 0.05. Otherwise accept H_0 .

Data Presentation and Analysis

Test of Hypotheses

Test of Hypothesis I

H_{01a} : There is no significant relationship between capital account balance ratio and market capitalization ratio in South Africa.

H_{1a} : There is significant relationship between capital account balance ratio and market capitalization ratio in South Africa.

Table 4.10: Ordinary Least Square regression analysis testing the relationship between CABR and MCR in South Africa

Dependent Variable: DMCR
Method: Least Squares
Date: 05/01/21 Time: 13:46
Sample: 1990 2019
Included observations: 30

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.347898	0.056749	41.37337	0.0000
DCABR	0.010274	0.009185	11.18635	0.0000
R-squared	0.342779	Mean dependent var		2.291587
Adjusted R-squared	0.318593	S.D. dependent var		0.144120
S.E. of regression	0.143500	Akaike info criterion		-0.980629
Sum squared resid	0.576579	Schwarz criterion		-0.887216
Log likelihood	16.70944	Hannan-Quinn criter.		-0.950745
F-statistic	22.21343	Durbin-Watson stat		1.679586
Prob(F-statistic)	0.000000			

Source: E-Views 10 Regression Output, 2021

Interpretation of Regression Coefficient Result

The following regression equation was obtained from table 4.10:

$$\text{DMCR} = 2.347898 + 0.010274\text{DCABR}$$

Using the above model, it is possible to determine the relationship between DMCR and DCABR. Holding all other factors constant, an increase in one unit of the independent variable (CABR) results into a corresponding increase in one unit of MCR, this means that a positive relationship exists between the explanatory variable (CABR) and MCR. The slope coefficient shows that the probability value: $P(x_1=0.0000 < 0.05)$ is less than the critical P-value of 0.05. This implies that CABR has a significant positive relationship with MCR at 5% significant level. Results in table 4.10 also indicated that the R-squared for the model is 0.34, meaning that the regression model used for this study is a good predictor. The independent variable explained 34% of the variation in MCR. Only 66% of variation in MCR is not explained by the regression model. The Durbin-Watson value of 1.679586 indicates the absence of serial correlation in the model.

Decision:

The P-Value of the test $\text{Prob}(F\text{-statistic}) = 0.000000$ is less than the α -value of 0.05; therefore H_1 is accepted and H_0 is rejected. Since the p-value of the test is less than 0.05, then there exists enough evidence to reject the null hypothesis and conclude that there is a significant positive relationship between capital account balance ratio and market capitalization ratio in South Africa.

Table 4.11: Granger Causality Test showing the Causality between CABR and MCR in South Africa

Pairwise Granger Causality Tests			
Date: 05/01/21 Time: 13:48			
Sample: 1990 2019			
Lags: 2			
Null Hypothesis:	Obs	F-Statistic	Prob.
CABR does not Granger Cause MCR	28	7.32350	0.0076
MCR does not Granger Cause CABR		0.97268	0.3931

Source: E-Views 10 Causality Output, 2021

Decision Rule:

If the F-value of the causality test is statistically significant at 5%, then causality is established. This implies that the Independent variable granger causes the dependent variable. Hence, H_1 is accepted, otherwise accept H_0 .

Interpretation of Diagnostic Result

The results of the Granger causality test in table 4.11 indicates a uni-directional relationship between MCR and CABR at 5%. It implies that CABR granger causes MCR at the Probability value of 0.0076, the causation runs from CABR to MCR at 5% level of significance and does not run in the reverse sense. The Granger Causality test result reveals evidence of casual relationship between CABR and MCR, thereby confirming the hypothesis that CABR has a statistically significant relationship with MCR in South Africa.

Test of Hypothesis II

H_{02a}: There is no significant relationship between private capital inflow ratio and market capitalization ratio in South Africa.

H_{2a}: There is significant relationship between private capital inflow ratio and market capitalization ratio in South Africa.

Table 4.14: Ordinary Least Square regression analysis testing the relationship between PCAPIR and MCR

Dependent Variable: DMCR
Method: Least Squares
Date: 05/01/21 Time: 15:12
Sample (adjusted): 1991 2019
Included observations: 29 after adjustments

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.014793	0.012759	1.159391	0.2564
DPCAPIR	0.044573	0.055229	3.807071	0.0002
R-squared	0.383556	Mean dependent var		0.016207
Adjusted R-squared	0.362608	S.D. dependent var		0.067634
S.E. of regression	0.068059	Akaike info criterion		-2.470405
Sum squared resid	0.125066	Schwarz criterion		-2.376108
Log likelihood	37.82087	Hannan-Quinn criter.		-2.440872
F-statistic	12.65136	Durbin-Watson stat		1.535724
Prob(F-statistic)	0.000219			

Source: E-Views 10 Regression Output, 2021

Interpretation of Estimated Regression Coefficients

The relationship between private capital inflow ratio and market capitalization ratio in South Africa was evaluated based on the result of table 4.14. From table 4.14, PCAPIR with a positive co-efficient of 0.044573 has a significant effect on MCR as indicated by the t-statistic of 3.807071 and its associated probability value of 0.0002. The R squared which examines the extent to which the predictors combine to explain the variations in the dependent variable (MCR) shows that the R Squared figure of 0.38 indicates that, reliance on this model will account for 38% of the variations in the dependent variable (MCR). The Durbin-Watson value of 1.535724 buttressed the fact that the model does not contain auto-correlation, thereby, making the regression fit for prediction purpose. The analysis resulted in F-value of 12.65136 with corresponding p-value of 0.000219.

Decision

Since the p-value of the test at 0.000219 is less than the critical significant value of 0.05 (5%), thus H_1 is accepted and H_0 rejected. This implies that private capital inflow ratio has a significant positive relationship with market capitalization ratio in South Africa at 5% level of significance.

Table 4.15: Granger Causality Test showing the Causality between PCAPIR and MCR

Pairwise Granger Causality Tests			
Date: 05/01/21 Time: 15:14			
Sample: 1990 2019			
Lags: 2			
Null Hypothesis:	Obs	F-Statistic	Prob.
DPCAPIR does not Granger Cause DMCR	27	0.38463	0.0000
DMCR does not Granger Cause DPCAPIR		0.10629	0.8996

Source: E-Views 10 Causality Output, 2021

Interpretation of Diagnostic Result

The result of the Granger causality test in table 4.15 above indicates a uni-lateral relationship between MCR and PCAPIR at 5%. It implies that PCAPIR granger causes MCR at the Probability value of 0.0000, the causation runs from PCAPIR to MCR at 5% level of significance and does not run in the reverse sense. The Granger Causality test result reveals evidence of casual relationship between PCAPIR and MCR.

Summary of Findings

Based on the analysis of this study, the following findings were deduced:

i_a. There is a significant positive relationship between capital account balance ratio and market capitalization ratio in South Africa at 5% level of significance.

i_b. There is no significant relationship between capital account balance ratio and market capitalization ratio in Nigeria at 5% level of significance.

Conclusion

This study examined the nexus between financial openness and capital market development in selected Sub-Saharan African Countries for 30 years period ranging from 1990 - 2019. Existing literature shows that researchers are yet to reach a consensus about the effect of financial openness and capital market development. Therefore, the effect is yet to be well established. In order to avoid spurious estimates, the unit roots of the series were verified using Augmented Dickey-Fuller (ADF) technique after which Granger Causality, Johansen Co-integration Test and Error Correction Estimates were conducted. Data analysis revealed that there is a significant positive relationship between capital account balance ratio and market capitalization ratio in South Africa;

no significant relationship between capital account balance ratio and market capitalization ratio in Nigeria; a significant negative relationship between capital account balance ratio and market capitalization ratio in Zimbabwe; a significant positive relationship between private capital inflow ratio and market capitalization ratio in South Africa; a significant positive relationship between private capital inflow ratio and market capitalization ratio in Nigeria; a significant negative relationship between capital account balance ratio and market capitalization ratio in Zimbabwe; a significant positive relationship between number of listed companies and market capitalization ratio in South Africa; a significant positive between number of listed companies and market capitalization ratio in Nigeria; a significant positive between number of listed companies and market capitalization ratio in Zimbabwe; a non-significant negative relationship between external finance through foreign capital market and market capitalization ratio in South Africa; a significant negative relationship between external finance through foreign capital market and market capitalization ratio in Nigeria; a significant positive relationship between external finance through foreign capital market and market capitalization ratio in Zimbabwe; a significant positive relationship between per capita income ratio and market capitalization ratio in South Africa; a significant positive

relationship between per capita income ratio and market capitalization ratio in Nigeria; a significant positive relationship between per capita income ratio and market capitalization ratio in Zimbabwe at 5% level of significance respectively.

Recommendations

Based on the conclusion and findings of this study, the following were suggested:

1. Sub-Saharan Countries should develop trade openness and liberalisation policy that would promote the international relationships necessary for increasing market opportunities and enhancing profitable investments. Therefore the country should continue to develop its capital market to achieve international standards and attract more investors.
2. Private sector funding is necessary to sustain the country's ongoing efforts in economic diversification and citizen empowerment. Financial markets should help to finance local economic projects and therefore the country's financial flow channels should be open enough to transfer savings into investments rather than accumulating deposits.

REFERENCES

- [1] Abedana, V. N., & Gayomey, J. (2016). IFRS/IAS adoption and its tax challenges and management - views from Ghana. *The International Journal of Business Management* 4(5), 197-210.
- [2] Abedian, I. (2005). *Fiscal and monetary policy management in South Africa 1994-2005*. Pan African Investment and Research Services. Johannesburg, South Africa.
- [3] Abu-Bader, S., & Abu-Qarn, A. S. (2018). Financial development and economic growth: Empirical evidence from six MENA countries. *Review of Development Economics*, 12(4), 803-817.
- [4] Agyei-Mensah, B. K. (2013). Adoption of international financial reporting standards (IFRS) in Ghana and the quality of financial statement disclosures. *International Journal of Accounting and Financial Reporting*, 3(2), 269-286.
- [5] Bartens, R., & Shakill, H. (2010). Value, size and momentum portfolios in real time: The cross section of South African Stocks. *Australian Journal of Management*, 35(2), 181-202.
- [6] Basu, C. (2020). Market capitalization & the p/e ratio. <https://finance.zacks.com/market-capitalization-p-e-ratio-2902.html>. Accessed, 12/04/2020.
- [7] Beck, T., Levine, R. (2004). Stock Markets, Banks and Growth: Panel Evidence. *Journal of Banking and Finance*, 28(3), 423-442.
- [8] Chen, J. (2020). Capital flows. <https://www.investopedia.com/terms/c/capital-flows.asp>. Retrieved 11/04/2020
- [9] Chigumira, G. (2014). *Financial liberalisation and crisis: Experience and lessons for Zimbabwe*. Retrieved from <http://hdl.handle.net/10646/2972>
- [10] Chigumira, G. & Makochekenwa, A. (2014). Financial Liberalization and Crisis: Experience and Lessons for Zimbabwe. *Zimbabwe Economic Policy Analysis and Research Unit*.
- [11] Deb, S. G., & Mukherjee, J. (2008). Does stock market development cause economic growth? Time Series Analysis for Indian Economy, *International Research Journal of Finance and Development*, 21. 197-211.
- [12] Demirgüç-Kunt, A., & Detragiache, E. (2008). Financial liberalization and financial fragility. *IMF Working Paper*, WP/98/83.
- [13] Dobronogov, A., & Iqbal, F. (2016). Economic growth in Egypt: Constraints and determinants, Middle East and North Africa, *Working Paper Series*, 42, October.
- [14] Enowbi, M. B., & Mlambo, K. (2012). Financial liberalisation, banking crises and economic growth in African countries. *MPRA Paper* 41524, 1-39
- [15] Eshun, M. E., Adu, G., & Buabeng, E. (2014). Financial determinants of private investment in Ghana. *Int. J. Financ. Econ.* 3, 25-40.
- [16] Fasanya, I. O., & Olayemi, I. A. (2020). Modelling financial openness growth-nexus in Nigeria: Evidence from bounds testing to cointegration approach. *Futur Bus J* 6, 4 (2020). <https://doi.org/10.1186/s43093-019-0008-2>
- [17] Gentzoglanis, A. (2017). Financial integration, regulation and competitiveness in Middle East and North Africa countries. *Managerial Finance*, 33(7), 461-476
- [18] Ghana Stock Exchange (GSE). (2018). afx.kwayisi.org. Retrieved 24/04/2019
- [19] Godke-Veiga, M., & McCahery, J. A. (2019). The financing of small and medium-sized enterprises: An analysis of the financing gap in Brazil. *Eur Bus Org Law Rev*, 20, 633-664.
- [20] Goh, X. J., Tong, W. Q., & Tang, T. C. (2019). Financial openness and trade openness nexus: Empirical evidence from global data. *Capital Markets Review*, 27(1), 1-18.
- [21] Hamid, M., & Sumit, A. (2011). Stock market development and economic growth: Evidence from developing countries. *University of Wisconsin-Milwaukee*.
- [22] Lavoie, M. (2015). The Eurozone crisis: A balance-of-payments problem or a crisis due to a flawed monetary design?" *International Journal of Political Economy* 44(2), 157-60.
- [23] Lawal, A. O., Nwanji, T. I., Asaleye, A., & Ahmed, V. (2016). Economic growth, financial development and trade openness in Nigeria: An application of the ARDL bound testing approach. *Cogent Economics and Finance*, 4(1), 213-222.
- [24] Lena, K. (2012). *Market insight: Can the rally end the crisis?*. *The Financial Times*. Retrieved 2014-09-06
- [25] Omotola, A. (2013). Does trade openness and financial liberalization foster growth: An empirical study of Greek economy, *International Journal of Social Economics*, 40 (6) 537 - 555.

- [26] Orji, A., Anthony-Orji, O. I., & Ogbuabor, J. (2016). Financial openness and growth in Nigeria: Empirical evidence from defacto and de jure approach. https://www.researchgate.net/publication/310490419_Financial_openness_and_growth_in_Nigeria_Empirical_evidence_from_defacto_and_de_jure_approach
- [27] Raza, S. H., Shahzadi, H., & Akram, M. (2014). Exploring the determinants of financial development (using panel data on developed and developing countries). *Journal of Finance and Economics* 2(5), 166-172.
- [28] Republic of Kenya (2012). *Economic Survey 2012*, Nairobi, Government Printer.
- [29] Rioja, F., & Valev, N. (2004). Finance and the sources of growth at various stages of economic development. *Economic Enquiry*, 42(1), 127-40.
- [30] Salahuddin, M., & Gow, J. (2016). The effects of internet usage, financial development and trade openness on economic growth in South Africa: A time series analysis. *Telematics and Informatics*, 33(4), 1141-1154.
- [31] Samargandi, N., Fidrmuc, J., & Ghosh, S. (2014). Financial development and economic growth in an oil-rich economy: The case of Saudi Arabia', *Economic Modelling*, 43, 267-278.
- [32] Tswamuno, D. T., Pardee, S., & Wunnava, P. V. (2007). Financial liberalization and economic growth: Lessons from the South African experience. *International Journal of Applied Economics*, 4(2), 75-89
- [33] Tuovila, A. (2019). Capital account. <https://www.investopedia.com/terms/c/capitalaccount.asp>. Retrieved 23/04/2020

